

## Message Text

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ORIGIN EB-07

INFO OCT-01 EUR-12 IO-10 ISO-00 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01

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DRAFTED BY EB/OT/TA:BREDECKER:JVM

APPROVED BY EB/OT/TA:WGBARRACLOUGH

COMMERCE:RFRANCIS

TREASURY:COUELETTE

EUR/NE:NACHILLES

EUR/RPE:RBRESLER

STR:JGREENWALD

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P R 302332Z DEC 75

FM SECSTATE WASHDC

TO AMEMBASSY OSLO PRIORITY

INFO AMEMBASSY COPENHAGEN

AMEMBASSY BONN

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION GENEVA

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E.O. 11652: N/A

TAGS: ETRD, GATT, EEC, EFTA, NO

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SUBJECT: PROPOSED NORWEGIAN DUTY AND TAX CHANGES

ON MOTOR VEHICLES

REFS: (A) OSLO 5357, (B) STATE 273896, (C) OSLO 4891

1. IN VIEW OF EMBASSY'S CLARIFICATION REF. (A) THAT AUTO TAX IS APPLIED ON BASIS OF CIF VALUE PLUS DUTY, WE AGREE FULLY THAT U.S. VEHICLES WOULD BE DOUBLY DISADVANTAGED BY PROPOSED NORWEGIAN CHANGES IN DUTIES AND TAX. THE CONTINUED INCLUSION OF THE DUTY APPLIED TO NON EC/EFTA VEHICLES IN THE TAX BASE PLACES THESE VEHICLES AT A COMPETITIVE DISADVANTAGE WITH EC/EFTA VEHICLES. IN ADDITION, THE INCREASE IN THE TAX RATE FROM 100 PERCENT TO 110 PERCENT ON VALUE OVER KR. 5000 FURTHER AGGRAVATES THE PROBLEM BY INCREASING TAX BURDEN ON U.S. MODELS WHICH TEND TO BE MORE EXPENSIVE DUE TO HIGHER TRANSPORTATION COSTS, APPLICATION OF DUTY, ETC.

2. FOR REASONS CITED REF. (B) WE STILL DO NOT WISH TO RAISE THE ISSUE OF CONSISTENCY OF NORWEGIAN/EFTA FTA WITH THE GENERAL AGREEMENT, OR NORWAY'S RIGHT TO ELIMINATE THE DUTIES APPLIED TO EC/EFTA COUNTRIES IN KEEPING WITH ITS TRADE AGREEMENTS WITH THESE AREAS, ALTHOUGH THIS OF COURSE PLACES U.S. EXPORTS AT COMPETITIVE DISADVANTAGE. WE SHOULD, HOWEVER, STRESS TO NORWEGIAN AUTHORITIES THAT CONTINUED INCLUSION OF DUTY IN TAX BASE AND TAX RATE CHANGE ITSELF HEIGHTEN DISCRIMINATION AGAINST U.S. EXPORTS, AND IN OUR VIEW UNNECESSARILY SO.

3. EMBASSY SHOULD THEREFORE MAKE OUR CONCERNS KNOWN, VERBALLY AND/OR IN WRITING AT ITS DISCRETION, TO APPROPRIATE LEVELS OF GON DRAWING ON RELEVANT PORTIONS OF ABOVE AND FOLLOWING SPECIFIC POINTS.

-- FACT THAT NORWAY PROPOSES TO ELIMINATE DUTY ON EC/EFTA CARS, AND THEN CONTINUE TO TAX BOTH ON THE BASIS OF CIF VALUE PLUS DUTY, HAS THE EFFECT OF MAKING MORE RESTRICTIVE AND DISCRIMINATORY OVERALL TREATMENT ACCORDED TO NON EC/EFTA CARS THAN WAS PREVIOUSLY THE CASE. THIS SITUATION, WE BELIEVE, IS OF QUESTIONABLE CONSISTENCY WITH THE GATT.  
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-- ARBITRARY NATURE OF GRADUATED TAX ITSELF EFFECTIVELY SINGLES OUT U.S. CARS, AND AS SUCH CONSTITUTES A NON-TARIFF BARRIER, A POSITION WE HAVE ADVANCED WITH RESPECT TO OTHER COUNTRIES MAINTAINING SIMILAR TAXATION METHODS (E.G. FRENCH, ITALIAN AND BELGIAN ROAD USE TAXES).

-- WHILE WE RECOGNIZE GON DESIRE TO IMPLEMENT ITS FREE TRADE AGREEMENT WITH EC, WE ARE CONCERNED THAT GON NON-TARIFF (E.G. TAX) ACTIONS IN CONNECTION THEREWITH NOT FALL DISPROPORTIONATELY ON U.S. AUTOS, AND THUS HEIGHTEN THE DISCRIMINATION ALREADY INHERENT IN THE FTA.

-- IN LIGHT OF THE DISCRIMINATORY ASPECTS OF THE TAX AS NOW PROPOSED, WE BELIEVE THAT THE BENEFITS OF BOUND NORWEGIAN DUTIES ON AUTOS COULD WELL BE NULLIFIED OR IMPAIRED.

-- AS WE SEE IT, SOLUTION TO THIS PARTICULAR PROBLEM WOULD BE FOR NORWAY TO

(A) ESTABLISH IN ITS NEW LEGISLATION SINGLE SEPARATE TAX STRUCTURE (I.E. STRAIGHT PERCENTAGE) AT WHATEVER REASONABLE LEVEL APPEARS TO BE NECESSARY FOR LEGITIMATE REVENUE PURPOSES, BUT REMOVING ANY TRADE DISTORTING EFFECTS OF THE SEPARATE TAX ITSELF; AND

(B) PROVIDE IN ITS NEW LEGISLATION THAT THE SEPARATE TAX WILL BE LEVIED ON A CIF BASIS ONLY (I.E. EXCLUSIVE OF DUTY). SINCE THERE IS NO DOMESTIC PRODUCTION TO BE PROTECTED, THE TAX DOES NOT HAVE TO BE COLLECTED ON A DUTY PAID VALUE BASIS.

-- SUCH AN ARRANGEMENT WOULD RESOLVE OUR KEY CONCERN AT THIS POINT THAT NO NEW TRADE DISTORTIONS CREEP INTO EXISTENCE THROUGH GON'S PROPOSED IMPORT REGIME. WE WISH TO RESERVE OUR POSITION AT THIS TIME ON NORWAY'S ASSERTED RIGHT TO INCREASE DOMESTIC TAXES TO COMPENSATE FOR LOSS OF REVENUE FROM DUTIES, AND ON MORE FUNDAMENTAL QUESTION WITH RESPECT TO THE CONSISTENCY OF EC/EFTA FTAS WITH THE GATT.

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4. EMBASSY SHOULD NOT BE DRAWN AT THIS TIME INTO DEBATE ON GATT LEGALITY OF PROPOSED MEASURES, BUT SHOULD INSTEAD EMPHASIZE PRACTICAL DISCRIMINATORY EFFECTS OF PROPOSED SCHEME ON U.S. EXPORTS OF CARS TO NORWAY. THE U.S. UNDERSTOOD THAT THE REVISED METHOD OF TAXATION WAS DESIGNED TO REPLACE REVENUE LOST FROM ELIMINATION OF TARIFFS ON EC CARS. AS FORMULATED, THE TAX EFFECTIVELY SHIFTS PART OF THE REVENUE BURDEN FROM THE EC TO THE U.S. ROBINSON

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